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INFORMATION CONCERNING LONG-TERM TRADE AGREEMENTS BETWEEN THE GDR AND OTHER CEMA MEMBERS

This report presents the full text of a memorandum submitted by a GDR (German Democratic Republic) agency concerning the effects of CEMA (Council for Economic Mutual Assistance) on GDR foreign trade during the period 1952-1955. The memorandum is dated 20 May 1952. the GDR State Planning Commission prepared the document. There is nothing in the enclosure to indicate its author.

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The document contains the following:

A discussion of the long-term supply situation for a number of important GDR import commodities with regard to fulfillment of GDR requirements for these commodities up to 1955.

Information concerning the most important commodities involved in trade between the GDR and individual CEMA member countries.

Criticism of the procedures used in concluding long-term agreements and suggestions for improving the procedures.

The field comment notes the following:

"This document further confirms the shortage, repeatedly reported, of pig iron and rolled steel. Even in 1955, despite the forced expansion of trade relations among Satellite countries, East Germany can receive from these countries only 50 percent of required imports of rolled steel and only 10 percent of required pig iron imports."

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The conclusion of long-term agreements up to 1955 is of great assistance in determining the production program for both industry and agriculture, and therefore for the entire GDR economy. The significance of the conclusion of such agreements is particularly evident from a consideration of the following import items:

Black Coal

The total procurement quota for this item, including imports, is to be increased from 3.6 million tons in 1952 to 7 million tons in 1955. Imports for each year amount to approximately 50 percent of the total procurement quota. The results of the long-term agreements show that the import quotas for the individual years are being fulfilled and starting in 1953 will even be exceeded. Therefore, it is possible to satisfy in full the requirements of the gas and power plants and of GDR transportation, the three most important authorized consumers, and to fulfill the tasks set under the Five-Year Plan.

Industrial Coke

The share of imports in the total procurement quota of industrial coke is to decrease from 46.5 percent of the total procurement quota in 1952 to 38.5 percent in 1955. This percentage decrease of imports is to be largely the result of the great increase in the domestic output. However, the quotas set in the long-term agreements exceed the quantities in the import plan for each year covered by the agreements. Therefore, it will be possible to supply sufficient industrial coke to the metallurgical and mining enterprises (East Metallurgical Combine, Maxhuette, and copper mining), the machine-building industry (iron foundries), and the chemical industry (Leuna Works, Schkopau Buna Works, Piesteritz Nitrogen Works), which are the largest authorized consumers for this commodity.

Raw Brown Coal

Despite the fact that the Five-Year Plan provides for a 46-percent increase in the GDR production of raw brown coal, there is also a considerable increase in imports. The quantities to be imported under the Five-Year Plan during 1952 and 1953 are earmarked almost exclusively for the Hirschfelde Power Plant. The balance of brown-coal imports /i. e., the quantity not used by the Hirschfelde Power Plant/ was earmarked for the import of hard brown coal. However, the long-range prospects indicated by the 1952 production plan and the 1953 control figures point to a decline in imports of hard brown coal, as compared with the quantities provided for under the Five-Year Plan, because of a greater increase in domestic production /than that scheduled in the Five-Year Plan/. The quantities fixed in the long-term trade agreements are, with the exception of the quantities fixed for 1952, less than the quantities called for in the import plans up to 1955.

Iron Ore

The imports of iron ore play a significant part in assuring the fulfillment of the casting and steelmaking plans. Imports of iron ore are all the more important since the GDR output consists of acid and inferior iron ores. Under the Five-Year Plan, imports of iron ore are to increase from

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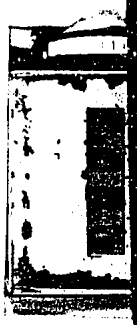

400,000 tons in 1952 to one million tons in 1955. All the ore is to be delivered by the USSR. The East Metallurgical Combine depends on Soviet ore deliveries for its continuous operations. It has concluded contracts with the USSR in accordance with the amount of its planned production.

Manganese Ore

The imports of 120,000 tons of manganese ore are especially significant since the GDR does not have any manganese-ore deposits of its own. The GDR import requirements for each year up to 1955 are being covered in excess of the planned import quotas. Therefore, the transition from standard steel to high grade steel is assured. The construction of the Doehlen High-Grade Steel Works will contribute to freeing the GDR from its dependence on imports of high-grade steel from Western countries.

Apatite Concentrate and Raw Phosphate

The entire demand for apatite concentrate and raw phosphate must be satisfied from imports. The GDR needs for imports of these items have been 40-45 percent covered through the conclusion of long-term agreements.

Judging by the 1952 Economic Plan and the 1953 control figures, the percentage of imports [from the CEMA countries] during these years is to be increased to 75 and 90 percent of demand, respectively. Consequently, only a small part of the requirements for these items will have to be realized from Western countries. Therefore, a great part of the production of phosphorus fertilizer for agriculture is assured up to 1955.

Pig Iron

The imports of pig iron in 1955 will be approximately 20 percent greater than 1952 imports, and, therefore, will amount to one sixth of the total GDR procurement quota. As a result of the conclusion of the long-term agreement with the USSR, approximately 60-70 percent of the quantities planned to be imported are covered for each year up to 1955. However, import requirements for 1953 are only 44 percent covered. Contracts for the balance must be concluded by supplementary agreements with CEMA countries or with Western countries. However, judging by the 1952 Economic Plan and the 1953 control figures, it is clearly evident that the import quotas provided for under the Five-Year Plan have been considerably reduced, as a result of the reduction of the material consumption norms. It should, nevertheless, be pointed out that the heavy decline of imports in 1953 under the long-term agreements places the GDR in a serious position unless its import needs can be satisfied by supplementary agreements with the CEMA countries or with the Western countries. Failure to procure the necessary imports would, of course, affect GDR production.

Rolled Steel

The Five-Year Plan provides for a slight decline in imports starting with 1953 (as compared with 1952), since the GDR domestic production is to be almost doubled. The quotas set in the long-term agreements amount to 50 percent of the import requirements of rolled steel. The quantities of rolled steel to be imported under the Five-Year Plan must be reduced, since, because of the shortage of foreign exchange, it is more than questionable whether the remaining 50 percent [not covered by contracts with CEMA countries] can be obtained from Western countries. Therefore, the situation with regard to rolled steel is just as serious as the situation with regard to pig iron.

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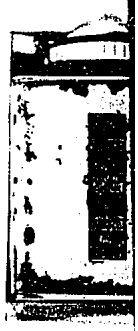

Benzene

According to the provisions of the Five-Year Plan, 1955 imports of benzene are to be 125 percent of 1952 imports. The quantities imported during the years up to 1955 are to be more than double the domestic production for each year. The long-term agreements satisfy 85-95 percent of the GDR import needs. Since benzene cannot be procured from Western countries, both the 1952 plan and the 1953 control figures were reduced to the quantities provided for under the long-term agreements. The production of chlorobenzene and nitrobenzene and insecticides is largely assured.

Petroleum

Except for insignificant quantities, the GDR depends fully on imports, which on the whole will remain constant up to 1955. The requirements are fully covered in the long-term agreements. Therefore, the production of gasoline and lubricants can be regarded as assured.

Meat

The share of meat imports in the total demand is very insignificant; however, domestic supplies are insufficient to satisfy the GDR demand in full. In accordance with the decrease in planned imports scheduled for 1954, the quotas set in the long-term agreement are also reduced. In this connection it should be noted that, because of increased GDR domestic production, the quantities planned to be imported under the 1952 Economic Plan and the 1953 control figures are less than the import quotas fixed in the Five-Year Plan. Part of the meat must be procured from Western countries. The consideration given to GDR wishes in the long-term agreements contributes to the steady increase in the standard of living of the GDR populace. Per-capita meat consumption in the GDR is to be raised from 46.8 kilograms in 1936 to 53.6 kilograms in 1955.

Cotton and Wool

The demand for cotton is covered by imports exclusively. Plans provide for increasing imports by 43 percent in 1955, as compared with 1952. Long-term agreements cover in full the imports planned under the Five-Year Plan up to 1955.

Fifty percent of the demand for wool can be satisfied from domestic sources; the balance is to be imported. The long-term agreements cover GDR import needs during the years 1953-1955 by approximately 30 percent, in 1952 by almost 60 percent. Attempts must be made to conclude contracts for the balance through supplementary agreements with the USSR and People's Democracies, or to cover through import contracts with Western countries any balance not available from the USSR and People's Democracies.

The imports of cotton and wool to be used in conjunction with synthetic fibers will improve the quality of textiles. Quantitatively, the per-capita supply of the populace with fabrics, which was 14 kilograms in 1936, will be as follows: 11.9 kilograms in 1952, 13 in 1953, 14.4 in 1954, and 15.6 in 1955.

Grain

Approximately 15-20 percent of the GDR grain demand under the Five-Year Plan is to be satisfied from imports. Feed grain imports by themselves are to amount to an average of 40 percent of the annual GDR feed grain demand. The quantities included in the long-term agreements for the years 1952-1954

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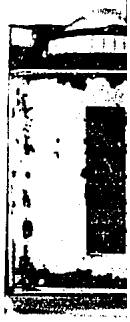

exceed the quantities provided for as imports under the Five-Year Plan. Therefore, the supply of the GDR with bread grain for consumption by the populace and with seed and feed grain for agriculture is fully assured. The imports of feed grain are designed to help in the fulfillment of the cattle-breeding program and to effect a decline in meat imports starting in 1954.

On the basis of the council /CEMA/ resolution of November 1950, the GDR concluded long-term agreements. Trade agreements for 1952-1955 were ratified as follows: with the USSR on 27 September 1951, with Poland on 10 November 1951, with Czechoslovakia on 1 December 1951, with Rumania on 23 January 1952, and with Hungary on 7 March 1952. A 1951-1955 credit agreement with Albania was ratified on 27 March 1951.

The negotiations concerning a long-term trade agreement with Bulgaria cannot be taken up before mid-1952 since Bulgaria cannot at present determine its /presumably import and export/ quotas for 1953-1955.

The following should be noted with regard to the conclusion of the long-term agreements with the CEMA member countries.

USSR

As compared with preceding years, there is no increase /in trade/, since the long-term agreement specifies only the most important items. The volume is determined by the supplementary agreements concluded separately for each year.

1. Imports

The quotas set in the long-term agreement are almost exclusively for raw materials, for semifinished products of the mining, metallurgical, chemical, and textile industries, and for food products.

The imports of mining and metallurgical products contribute to the construction of the East Metallurigcal Combine, the West Metallurgical Combine, and the Doehlen High-Grade Steel Works, and to the reconstruction of five additional metallurgical enterprises. The new capacities will increase the production of ferrous and nonferrous metals and will ultimately make it possible for the GDR to be independent of imports from Western countries. The USSR alone supplies all the iron and manganese ore required by the GDR.

The imports of cotton and wool from the USSR have a decisive influence on the gradual lifting of rationing, as well as on the qualitative improvement of textiles. The imports of cotton provided for under the Five-Year Plan are fully covered by contracts in the long-term agreement. A substantial part of the imports of grain and meat required to satisfy the GDR import needs under the Five-Year Plan is being supplied by the USSR; in fact, the USSR alone covers almost completely the quantities of grain required from imports by the GDR.

The USSR was unable to satisfy in full the GDR wishes with regard to imports of wheat, barley, cooking fat, wool, pig iron, rolled steel, nonferrous metals, apatite concentrate, coke, and natural rubber.

2. Exports

The GDR contributes to a more rapid realization of the construction projects of /USSR/ Communism and the rising standard of living of the Soviet people by its exports of heavy machines, complete installations, and equipment. The following examples of important export goods should be mentioned:

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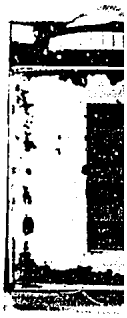

power machinery, heavy machine tools, metallurgical equipment, chemical pumps and compressor installations, equipment for the food and beverage industry, equipment for the building industry (complete plant installations), industrial fittings, generators, transformers, measuring and testing equipment, television receivers, Buna (synthetic rubber), Perlon /nylon/ cord, and sugar.

The commodities in the agreement for which annual quotas are to be set by agreement between the USSR and the GDR include the following: sulfur, cable and wiring, fuel, cement, and insecticides for agricultural use.

Poland

The volume of trade between the GDR and Poland is to be determined by agreement between the governments of the two countries.

1. Imports

Imports consist preponderantly of raw materials and semifinished products.

Of special significance for the GDR are the imports of black coal, coke, and raw brown coal. These imports assure the realization of GDR electric power needs and make possible accelerated construction and expansion of metallurgical enterprises. For example, the entire import demand for black coal for 1953-1955 is to be satisfied by Poland. The quotas set for those years even exceed the plan quantities. Poland's share in GDR imports of industrial coke is to rise from 47 percent of total imports in 1952 to 76 percent in 1955. In 1952 and 1953 Poland is to deliver 98 percent of GDR raw brown coal /imports/. During the period 1952-1955 Poland will deliver on the average one third of the quantities of benzene to be imported under the Five-Year Plan.

Poland was unable to give consideration to GDR wishes for rolled steel and pig iron. It was also not possible to fix the /quantities of/ meat, fat, and eggs /to be imported by the GDR/.

2. Exports

For the years 1952-1955 the products of the machine-building, electrical, and precision instrument and optical industries amount to 70-80 percent of the GDR export quotas under the long-term agreement. The comprehensive Polish requirements of machine tools and power machinery from the heavy machine-building industries, as well as of products from the chemical equipment and the vehicle-building industries, are examples of /the commodities required for/ the creation of the basis for a socialist economy. The deliveries of chemical equipment in particular will contribute to a greatly lessened dependence of Poland on imports from Western countries through the construction of its own basic chemicals industry. Next to the expansion in the electric power industry, the chemical industry is to receive the greatest increase in production facilities.

Czechoslovakia

The quotas under the long-term agreement /between the GDR and Czechoslovakia/ are no higher than those under the 1951 agreement. The difficulties encountered in the expansion of trade relations between the GDR and Czechoslovakia are caused for the most part by the similarity of the two economies; therefore, a detailed coordination of their production programs is necessary. Consultations were planned during 1952 to coordinate the production of various machine tools and of products of the electrical, precision instrument and optical, and chemical industries.

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1. Imports

Sixty to seventy percent of the quotas fixed in the long-term agreement consist of raw materials and semifinished products.

Czechoslovak deliveries of coke and rolled steel contribute to assuring the GDR power supply and the execution of the tasks set in the Five-Year Plan for the GDR metallurgical industry. The 1952 imports of cut pine wood from Czechoslovak alone amount to more than half of the quantities planned to be imported under the 1952 Economic Plan. These imports are necessary to assure the GDR raw material supply for the wood-processing industry, while at the same time the GDR is carrying out an extensive reforestation program designed to eliminate the denuded areas which resulted from the plundering policies during the fascist period.

The GDR requested Czechoslovakia to investigate the feasibility of increasing its deliveries of coke, rolled steel, and burned fire clay in excess of the quotas set in the long-term agreement.

It was not possible for Czechoslovakia to meet the full GDR requirements for large-size motor-vehicle tires (pneumatic tires for agricultural machinery, etc.).

The quantities for meat and cheese were not fixed in the long-term agreement, since Czechoslovakia was unable to make such long-range commitments.

Furthermore, Czechoslovakia was unable to satisfy the GDR wish for pig iron, since Czechoslovakia itself can cover its domestic needs by imports only. The same applies to black coal, since Czechoslovakia itself imports black coal to a large extent.

2. Exports

GDR exports to Czechoslovakia consist predominantly of finished products. Important export goods include the following: sulfur, nitrogen fertilizer, Buna, pitwood, machine tools, metallurgical and transportation equipment, chemical equipment, and products of the vehicle-building industry. The comprehensive Czechoslovak requests for chemical installations and basic materials underscore the strong efforts being made by Czechoslovakia to free itself from dependence on imports from Western countries by considerable expansion of its own chemical production. These efforts are extensively supported by GDR deliveries.

It was not possible to satisfy in full the Czechoslovak requests for nitrogen fertilizer and Buna. Czechoslovakia asked for a re-examination of the possibilities for delivery of catalysts and calcined soda, since its wishes with regard to these products had originally been completely turned down.

Hungary

1. Imports

Aside from raw materials and semifinished products, GDR imports from Hungary consist mostly of products of the food industry, although the developing shift toward imports from Hungary of products of the machine-building industry should be noted.

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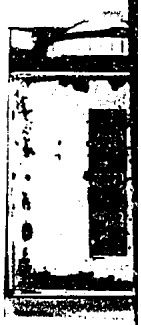

Of special significance for the GDR are the Hungarian shipments of bauxite and calcined alumina as basic materials for aluminum production. Hungary satisfies the entire GDR need for imports of bauxite.

Hungary was unable to satisfy in full the GDR wishes for imports of meat and tobacco.

Hungary declined to export wool, leather shoes, and rolled steel to the GDR.

In view of Hungary's rising production of machine tools and its steadily increasing exports of these items, Hungary proposed coming to an understanding with the GDR /with regard to production/ in this field.

2. Exports

GDR exports to Hungary consist predominantly of finished products.

Aside from power machinery and equipment for the textile industry, GDR exports of nitrogen fertilizer and insecticides are of particular importance to Hungary. A large increase in GDR exports of chemical equipment during 1954 and 1955 can be noted /in the long-term agreement/, since during those years more extensive investments are to be made in the chemical industry. For example, plans call for the construction of installations for the production of sodium carbonate, Perlon, and cellulose.

The GDR was unable to satisfy in full the Hungarian wishes for the following products: tools and foundry equipment, nitrogen fertilizer, caustic soda, calcium carbide, copper sulfate, fluorine salts, Buna, Igelit /plastic material/, pitwood, staple fiber, and newsprint.

Rumania

The GDR expressed the opinion that the quotas for products of the machine-building and electrical industries fixed in the long-term agreement were too low and did not correspond to the trade opportunities between the two countries. The director of the Rumanian trade delegation stated that the quotas conformed to the existing situation; however, he promised a re-examination of the situation during 1952 which could result in new proposals and quota increases.

1. Imports

GDR imports from Rumania consist in the first place of raw materials and semifinished products, and also products of the food industry.

Of significance for the GDR are its imports of Rumanian fuel oil, which supply GDR industry with fuel and are extremely important for the GDR merchant marine now being built up. The merchant marine will make it possible to expand GDR foreign trade, particularly with the People's Republic of China.

The imports of sulfuric acid are important for the textile industry, particularly in the production of staple fiber, Perlon cord, and other synthetic fibers, which are of considerable significance as GDR export items and which, in accordance with the resolutions of the council /CEMA/, will effect significant savings of cotton in textile production.

Rumania was unable to consider any GDR wishes for pyrite and oil shale; it was not able to satisfy in full the GDR requests for meat, cut oak wood, oil cake, and calcined soda.

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2. Exports

GDR exports consist mainly of finished products.

Aside from machine tools, GDR exports to Rumania consist of chemical equipment, machines for the food and beverage industry, and staple fiber.

The GDR was unable to satisfy Rumania's wishes in full with regard to geodetic instruments, Buna, and staple fiber.

Albania

The GDR concluded a credit agreement with Albania in the amount of 50 million rubles. This credit may be used during the period 1951-1955. Ten million rubles of that amount are earmarked for 1951, and 15 million for 1952. The remaining 25 million rubles are to be distributed over the period 1953-1955.

The credit is to be used by Albania principally for the purchase of miscellaneous equipment for the fuel, paper, and textile industries and other products of the machine-building, electrical, precision instrument and optical, and chemical industries. In this way, the GDR is contributing to the expansion of the Albanian peacetime economy and to the creation of a basis for that country's industrialization along socialist lines.

The loan is to be repaid within 10 years; repayment is to start in 1956.

* * *

In view of the importance of the conclusion of long-term agreements for the development of the CEMA countries, it is necessary to point out various shortcomings which should be avoided in future trade agreements, both in the long-term and in the annual agreements.

1. The trade volume for individual years is not laid down in the long-term agreements; only the key products are fixed. Therefore, it is not possible to balance the long-term agreements and to eliminate disproportions /between exports and imports/ at an early stage.

2. With regard to the volume of a number of items, either no data at all or only general and incomplete data could be furnished, particularly during the last few years. As a result of this situation, there is danger that production facilities cannot be adjusted in time to meet needs of the partners to the agreements, in view of the constantly growing demand of the CEMA countries for products of the heavy-machine-building industry. As a consequence, planned investment projects cannot be carried out at the scheduled time and disproportions /in the economy/ will result.

This shortcoming applies particularly to the GDR, a country which was not sufficiently prepared /for foreign trade/ and which had only incomplete and general ideas concerning its imports during the years up to 1955.

3. There are difficulties in the fulfillment of the long-term agreements since, as a result of a changed political situation, adjustments in demand have had to be made. This applies in particular to the Republic of Poland, which during the negotiations for a 1952 agreement with the GDR did not stick to the quotas fixed in the long-term agreement and expressed the wish for increases in products of the heavy-machine-building industry and decreases in consumers' goods. The great discrepancy already existing between the CEMA countries' heavy export offers for consumers' goods and the modest import wishes of these countries is thereby accentuated and can only lead to disproportions /in supply and demand for consumers' goods in these countries/.

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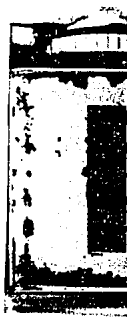

The increased offers of consumers' goods at a time of declining import demand for such goods is caused mostly by the fact that the commodity lists are not compiled according to the principle of /separate lists for/ the capital goods industry and the consumers' goods industry. Therefore, there is no way of observing the proportion of goods offered in the two fields and of taking appropriate measures for the proper development of the respective economies, leading toward adjustment of the production programs of the CEMA countries. This disproportion is shown in particular by the fact that the growing demand of the CEMA countries for heavy machines and equipment cannot be satisfied. This situation, of course, influences the rate of industrialization.

Therefore the GDR proposes the following measures:

1. Compilation of commodity lists within the framework of the trade agreements according to /the ra.io/ section I /capital goods?/: section II /consumers' goods/.

2. Determination of the volume of imports and exports in the long-term agreements, so that it would be the function of the annual agreements, in addition to the conclusion of supplementary agreements, to specify in detail the general quotas contained in the long-term agreements.

Quantities for key commodities would also be fixed in the long-term agreements.

3. Calling of a conference of all CEMA countries no later than the end of the third quarter 1952 in order to examine the possibilities for improving the long-term agreements through long-term supplementary agreements in conformance with the above-mentioned proposals.

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